

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

Postal Rate and Fee Changes, 1997

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY


NEWSPAPER ASSOCIATION OF AMERICA
INTERROGATORIES TO
UNITED STATES POSTAL SERVICE WITNESS PETER BERNSTEIN
(NAA/USPS-T31-1-21)
August 5, 1997

The Newspaper Association of America hereby submits the attached interrogatories to United States Postal Service witness Peter Bernstein and respectfully requests a timely and full response under oath.

Respectfully submitted,

NEWSPAPER ASSOCIATION OF AMERICA

By:

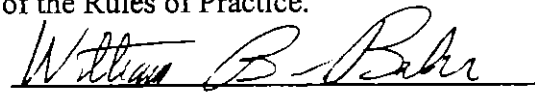

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CERTIFICATE OF SERVICE

I hereby certify that I have this date served the instant document on all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

August 5, 1997


William B. Baker

**NEWSPAPER ASSOCIATION OF AMERICA INTERROGATORIES
TO UNITED STATES POSTAL SERVICE WITNESS PETER BERNSTEIN**

NAA/USPS-T31-1. Please refer to the "purpose" of your testimony presented at page 2.

- a. Please confirm that you define the following two purposes of your testimony:
 - 1. Present prices for subclasses and special services that satisfy the Postal Service 1998 revenue requirement and "minimize the burden on mailers resulting from the break-even requirement based on the Ramsey pricing formula;" and,
 - 2. Provide a guideline for postal pricing based on economic efficiency, allowing the Postal Service and regulators to measure the cost using of non-economic rate design criteria in terms of lost economic efficiency.

If you cannot confirm, please explain how either or both of these purposes is incorrect or incomplete.

- b. In your view, are the statutory restrictions on institutional cost recovery from the preferred subclasses included in the "other considerations beyond economic efficiency" referenced at lines 13 to 14? Please fully explain any negative response.
- c. Do the statutory restrictions on institutional cost recovery from the preferred subclasses reduce economic efficiency? Please explain why or why not.
- d. If your response to part (c) is affirmative, did you compute the reduction in economic efficiency that results from the statutory restrictions on the institutional cost recovery from the preferred classes? If so, please provide an estimate of the reduction in consumer surplus that result from these restrictions. If not, please explain why not.

NAA/USPS-T31-2. Please refer to the discussion in Chapter 1 of your testimony regarding the burdens on consumers of products A and B. Please confirm that in your calculation of burdens, you do not consider the benefits that consumers may receive from purchasing substitute products offered by other firms. If you cannot confirm, please explain.

**NEWSPAPER ASSOCIATION OF AMERICA INTERROGATORIES
TO UNITED STATES POSTAL SERVICE WITNESS PETER BERNSTEIN**

NAA/USPS-T31-3. Please refer to your direct testimony at page 8, lines 16-17. Please provide specific definitions for each of the following terms as used here: "marginal cost," "per piece volume variable cost" and "essentially equal."

NAA/USPS-T31-4. Please refer to page 18, lines 3-4, where you state: "marginal cost is equal to volume variable cost per piece." Please also refer to page 38, lines 6-7, where you state: "The Postal Service costing methodology provides a cost estimate that is similar to marginal cost, known as volume variable cost." Have you performed any independent (that is, you own) analysis of Postal Service costing methodologies to satisfy yourself that volume variable costs are in fact equal to marginal cost, or to what extent they may differ? If so, please provide documentation of his analysis.

NAA/USPS-T31-5. Was Library Reference H-164 prepared by you or under your direction?

NAA/USPS-T31-6. Please refer to page 39, lines 1-8. You increase the prices of Express Mail and Registry mail to ensure that the revenues of these products cover their incremental costs.

- a. Does economic efficiency require that the revenues from each subclass recover the incremental costs of the subclass? Please explain why or why not.
- b. If your answer to part (a) is in any way affirmative, please explain why unconstrained Ramsey pricing produces an economically inefficient result and identify the theoretical flaw in unconstrained Ramsey pricing.

**NEWSPAPER ASSOCIATION OF AMERICA INTERROGATORIES
TO UNITED STATES POSTAL SERVICE WITNESS PETER BERNSTEIN**

NAA/USPS-T31-7. Please refer to equation (1) at page 17 of your direct testimony.

- a. Can the Ramsey pricing formula result in rates above the stand-alone cost of a product? Please explain why or why not.
- b. Does economic efficiency require that rates be below the stand-alone cost for each subclass? Please explain your response fully.
- c. If your answer to part (b) is in any way affirmative, please provide explain why unconstrained Ramsey pricing produces an economically inefficient result and identify the theoretical flaw in unconstrained Ramsey pricing.

NAA/USPS-T31-8. Please provide all analyses performed by the Postal Service or its contractors that estimate the stand-alone costs for any subclass. If no such analysis has been performed, please state whether the Postal Service has any plans to perform such an analysis.

NAA/USPS-T31-9. Are the "efficient" prices presented in your testimony consistent with the principle that prices be set below stand-alone cost? Please explain your response.

NAA/USPS-T31-10. Please refer to pages 47-8 of your direct testimony. Please explain fully why you have opted to impose the price constraints described at these pages.

NAA/USPS-T31-11. Please provide the comparison shown in Summary Tables 1 and 2 based on unconstrained Ramsey pricing.

**NEWSPAPER ASSOCIATION OF AMERICA INTERROGATORIES
TO UNITED STATES POSTAL SERVICE WITNESS PETER BERNSTEIN**

NAA/USPS-T31-12. Please provide the comparison shown in Summary Tables 1 and 2 based on Ramsey pricing constrained only by the incremental cost test but not the statutory requirements that limit the institutional cost recoveries from the preferred subclasses.

NAA/USPS-T31-13. Please provide versions of Summary Tables 1 and 2 that compare Ramsey prices to the after-rates prices proposed by the Postal Service in this proceeding.

NAA/USPS-T31-14. Regarding your use of "marginal cost" for developing Ramsey prices, please indicate whether short-run marginal cost or long-run marginal cost is more economically efficient. Please explain your response and identify or provide all supporting theoretical literature.

NAA/USPS-T31-15. Please refer to page 2, line 13 of your direct testimony.

- a. Please define "economic efficiency."
- b. Please list all assumptions that are necessary for Ramsey pricing to be economically efficient.
- c. Consider a two-part tariff with a fixed price for each service that is independent of the volume and a volumetric component. Is it your contention that Ramsey pricing is more efficient than a two-part tariff pricing scheme, wherein the volumetric component of the tariff is set at marginal cost? Please explain your response fully, and identify texts or other literature which support your opinion.

**NEWSPAPER ASSOCIATION OF AMERICA INTERROGATORIES
TO UNITED STATES POSTAL SERVICE WITNESS PETER BERNSTEIN**

NAA/USPS-T31-16. Please refer to your discussion of cross-price elasticities at pages 28-30.

- a. Assume that cross-price elasticities of demand exist for two subclasses of mail, but cannot be efficiently estimated because of multicollinearity, insufficient data, or other statistical problems. Under this assumption, is it economically efficient to develop Ramsey prices assuming that the cross-price elasticity terms are zero? Please explain your response.
- b. If the cross-price elasticities are assumed to be zero when in actual fact there is a reasonably high positive cross-price elasticity between two subclasses of mail, what effect will this assumption have on the estimated Ramsey prices compared to the actual economically efficient prices? Please explain fully.
- c. Please confirm that you assumed zero cross-price elasticity of demand between Standard A Regular mail and Standard A ECR mail. If you cannot confirm, please explain what you assumed about the cross-price elasticity of demand between these two subclasses.

NAA/USPS-T31-17. Please refer to the direct testimony of Postal Service witness Donald J.

O'Hara (USPS-T-30), page 36, lines 4-7 where he states "...a lower coverage for ECR would

have made it more difficult to design rates so that the Automation 5-digit rate in Standard

Regular was below the ECR basic rate, encouraging the movement of ECR basic letters into the automation mailstream." Please also refer to the direct testimony of Postal Service witness

Joseph D. Moeller (USPS-T-36), page 28, lines 8-13 where he states "...the Postal Service is

proposing rates that, by virtue of the zero percent passthrough described above, would encourage

letter mailings with this density to be entered instead as Automation Enhanced Carrier Route or

**NEWSPAPER ASSOCIATION OF AMERICA INTERROGATORIES
TO UNITED STATES POSTAL SERVICE WITNESS PETER BERNSTEIN**

5-digit Automation letters. The result of this relationship is an expected migration of 3.3 billion letters from the Basic ECR letter rate to 5-digit automation." (footnote omitted)

- a. In light of the above two statements, please state whether, in your opinion, the assumption of a zero cross-price elasticity between Standard A Regular mail and Standard A ECR mail is reasonable. Please explain fully.
- b. Please confirm that, under your Ramsey prices shown in Table 1, the average per piece rate for Standard A Regular mail would increase by 6.72 cents per piece or approximately 35 percent relative to the R94-1 after-rates price. If you cannot confirm, please explain your response and provide the correct figures.
- c. Please confirm that, under your Ramsey prices shown in Table 1, the average per piece rate for Standard A ECR mail would decrease by 8.28 cents per piece or some 51 percent relative to the R94-1 after-rates price. If you cannot confirm, please explain your response and provide the correct figures.
- d. Please confirm that, under your Ramsey prices shown in Table 1, the average per piece rate for Standard A Regular mail would be more than three times greater than that for Standard A ECR mail.
- e. Please confirm that you have assumed that the price changes that would result from imposing Ramsey pricing would cause no shift in mail volume between Standard A Regular and Standard A ECR.
- f. Please explain how the Ramsey prices for these two subclasses would change if a significant positive cross-price elasticity existed between these two subclasses of mail.

**NEWSPAPER ASSOCIATION OF AMERICA INTERROGATORIES
TO UNITED STATES POSTAL SERVICE WITNESS PETER BERNSTEIN**

NAA/USPS-T31-18. Please refer to your direct testimony at page 62, lines 7-19.

- a. Did you consider developing a Ramsey price for all periodicals mail in aggregate and then developing rates for each subclass that met the statutory constraints regarding the relative cost coverages of the preferred subclasses within periodicals mail? If not, please explain why you did not consider this approach. If yes, please explain why you did not adopt this approach.
- b. If you developed Ramsey prices as suggested in part (a), what would have been the change in the Ramsey prices for each subclass of periodical mail?

NAA/USPS-T31-19. Please refer to your direct testimony at page 64, lines 1-10, regarding the imposition of the preferred status constraints on Standard A Nonprofit and Standard A Nonprofit ECR mail. Please contrast the economic efficiency of your method with an alternative in which (1) the Ramsey pricing parameters are developed for all Standard A Regular (nonprofit and other) and all Standard A ECR (nonprofit and other) in aggregate, (2) an aggregate Ramsey price markup is developed for each combined group, and (3) rates are developed for each subclass within the group that satisfy the statutory constraints regarding the relative cost coverages of the preferred subclasses.

NAA/USPS-T31-20. Please refer to your direct testimony at page 72 *et seq.* regarding efficient component pricing (ECP). In your opinion, does ECP require that worksharing discounts be based on short-run marginal or average incremental costs? Please explain your response fully.

**NEWSPAPER ASSOCIATION OF AMERICA INTERROGATORIES
TO UNITED STATES POSTAL SERVICE WITNESS PETER BERNSTEIN**

NAA/USPS-T31-21. Please refer to your direct testimony at page 75, lines 6 to 11, regarding efficient component pricing (ECP).

- a. Please describe the specific economic conditions under which ECP is economically efficient.
- b. If worksharing was not a viable option for many First Class mailers, would ECP or Ramsey pricing be the most efficient method for determining the relative rates for presort and nonpresort mail? Please explain your response. If no definite answer exists, please detail the information and analysis which would be necessary to answer the question.
- c. If worksharing is a viable option for all First Class mailers, would ECP or Ramsey pricing be the most efficient method for determining the relative rates for presort and nonpresort mail? Please explain your response. If no definite answer exists, please detail the information and analysis which would be necessary to answer the question.
- d. If all First Class letter mailers could legally chose to send their mail via Standard A service, would ECP or Ramsey pricing be the most efficient method for determining the relative rates for First Class and Standard A letters? Please explain your response. If no definite answer exists, please detail the information and analysis which would be necessary to answer the question.
- e. If all First Class letter mailers were legally allowed to use Standard A service, do you believe that mailers would make a tradeoff between the additional cost of First Class service, and the additional value they earn by receiving a presumably higher level of service? Please explain fully any negative response.
- f. If some or all mailers make the tradeoff described in part (e) above, is ECP the most efficient method for setting the relative rates for the two services? Please explain your response.
- g. If there exists a very high positive cross-price elasticity between Standard A Regular mail and Standard A ECR mail, would ECP or Ramsey pricing be the most efficient method for determining the relative rates for Standard A Regular and Standard A ECR mail? Please explain your response. If no definite answer exists, please detail the information and analysis which would be necessary to answer the question.